RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

SINCE 1958 • REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION
POST OFFICE BOX 1759, LA JOLLA, CALIFORNIA 92038
26 LETTERS PER YEAR • $225 ANNUALLY

January 2, 1986 LETTER 929

Dec. 20 DJIA 1543.00; PTI 2041; A-D Ratio -11.09
Dec. 27 DJIA 1543.00; PTI 2046; A-D Ratio -11.18

COMMENT: I want to thank my subscribers for all the cards and letters received here over the last few weeks. I guess a bull market makes everyone happy, because the messages have been kind, cheery, even (gad!) complimentary. Now here's a happy message for you. This bull market has added half a trillion dollars to stock values and much more (although I haven't the exact figure) to the bond market. But that's over one trillion in added values. There's nothing like appreciating assets to gladden the hearts of stock and bond owners (and that could be the secret ingredient for 1986).

Normally I'd expect a bum year in 1986, because the years ending in "6" in the past have not been good ones. Also, we have not had a big correction since Reagan's 1984 election. But 1986 may be (it just may be) better than expected. And that 1 trillion or more in added values is not going to hurt.

THE MARKET: There's an old adage on Wall Street that states that "People will believe anything except the obvious." What's the obvious at this point? It's obvious that we are in a major primary bull market. And it's obvious that we've been watching an historic rise (since September) of almost 300 points in the D-J Industrial Average (accompanied by major rises in all the other averages). What else is obvious? Well, it's obvious that after a 300-point uncorrected rise, the Dow and the rest of the market could stall, back off or sink into an important correction. Even a one-third retracement of the current advance could take the Dow down to the 1460-80 range. And, of course, such a sell-off would hardly be a disaster (in fact, it might be healthful here to let some of the steam out of the market boiler).

Ironically, one of the bullish features of the rise since last September is that so many analysts likened it to the "final advance of 1929". I don't know how many observers, "experts" and financial writers issued dire warnings over the last few months, but let's say that skepticism and fear were widespread. The proverbial wall of worry was clearly visible, and the bull market obligingly climbed the worry wall.

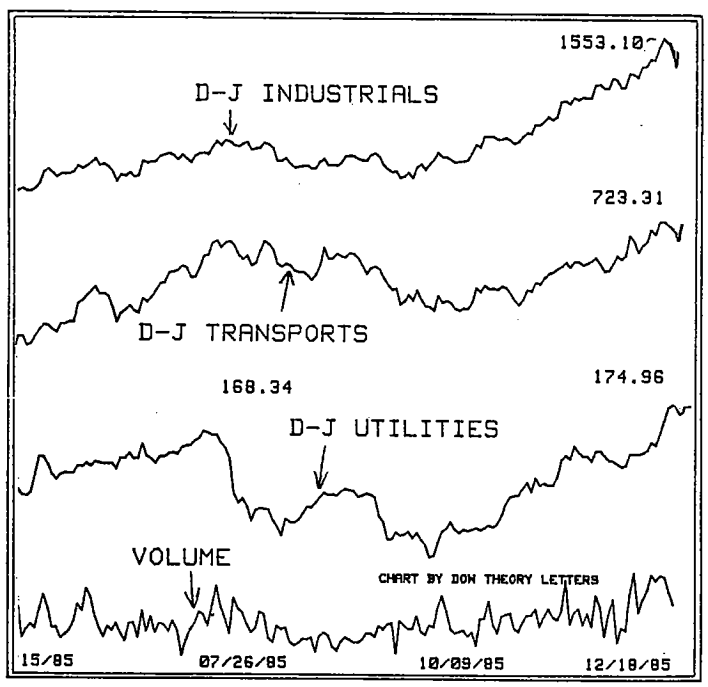
On December 19, after the close, it was announced that the short position on the NYSE had jumped an amazing 15% to a record 301 million shares. This was confirmed by a spectacular 19% rise in the Amex short position. Many market students are pooh-poohing the current short statistics because of arbitrage and major option buy and sell programs. There's no question but that arbitrage and buy-sell programs have distorted the short interest figures, but my own feeling is that the surging new record highs in the short interest are bullish.

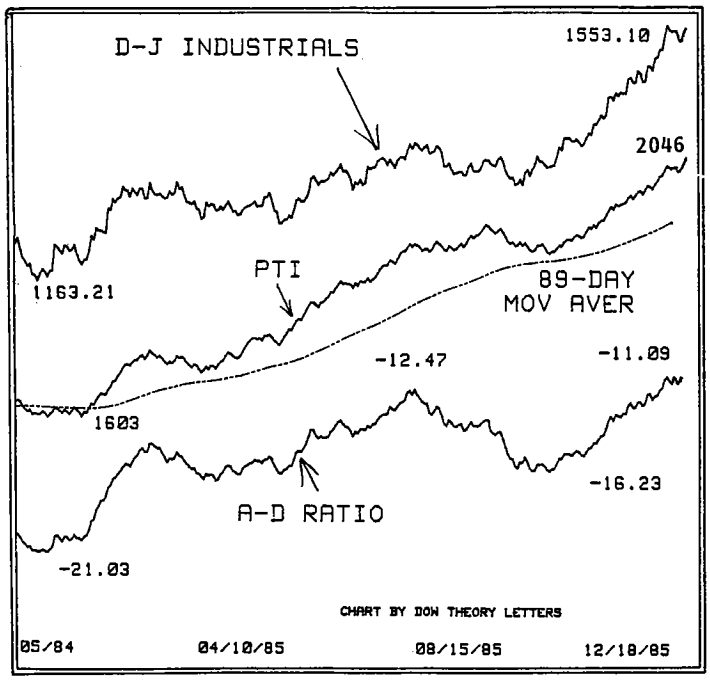
There's nothing more positive in a bull market than disbelief, and the new highs in the short interest signify not only disbelief but a willingness to bet against the primary trend. It is well to remember, also, that we are not seeing a single, isolated pop in the short interest. No, we have been witnessing new highs month after month, all in the face of an advancing stock market. It is as if the higher the market climbs, the more skepticism the market arouses. In my book, that's just plain bullish.

What happens next? The strength of any market can usually be gauged during the period following the first important peak. In super-strong markets (after a peak) the averages will back off and consolidate while volume dries up. The contraction of volume signifies that there is no real pressure to liquidate. A market that peaks and then dries up is a market that is preparing to go higher.

The other kind of action following a peak is the more usual type. Here the averages undergo the usual one-third to two-thirds correction, following which there is a lengthy consolidation. And, if the bull market forces are still dominant, the averages will then march resolutely to and above the old highs again.

WHY? Subscribers have written and called, and there is obviously a great deal of confusion about what this market is saying. "After all," they say, "here are the major averages at record highs, and business is not all that good, Congress is still goofing around and stalling on spending cuts, Reagan says he'll veto taxes, Gramm-Rudman may not work. The tax reform





bill is still just a concept, and our heavy industry continues to fall apart. So what's the market so happy about? "

Ah, that's a tough question. And my best answer is something I've talked about before. In a bull market all major problems tend to be resolved positively -- or at worst, they tend to be held off until the next bear market. With that in mind, I would have to say that this bull market at this point is pleased with what it sees ahead for 1986. There are problems, dozens of them, but the bull market knows about them and thinks those problems will be resolved positively. Sound impossible? Maybe, but I've seen it happen before. "In a bull market, news goes with the trend."

FORCES: Last night I tossed and turned in my bed while mulling over the various trends (forces) that might shape our lives over the next few years. I made my own list of 10 of them. Here they are, all laid out for you to ponder as we enter ... 1986.

(1) Excess liquidity in the US system. The money supply has been booming and the banks and the entire credit system are loaded with debt. Where is all this new liquidity going? It's going into bonds, stocks, corporate takeovers, money market funds. In fact, it seems clear that the liquidity is going every place but into new capital formation. So far, the liquidity flood is pumping up the financial markets like a giant balloon. Many veteran observers are saying, "1929 all over again." We'll see.

(2) There is an excess of goods being produced across the face of the earth. The avalanche of goods simply cannot be absorbed, and thus this constitutes a deflationary force. Walk through the stores today, and EVERYTHING appears to be on sale. Find something actually "Made in America" and you get a gold star from the National Association of Manufacturers.

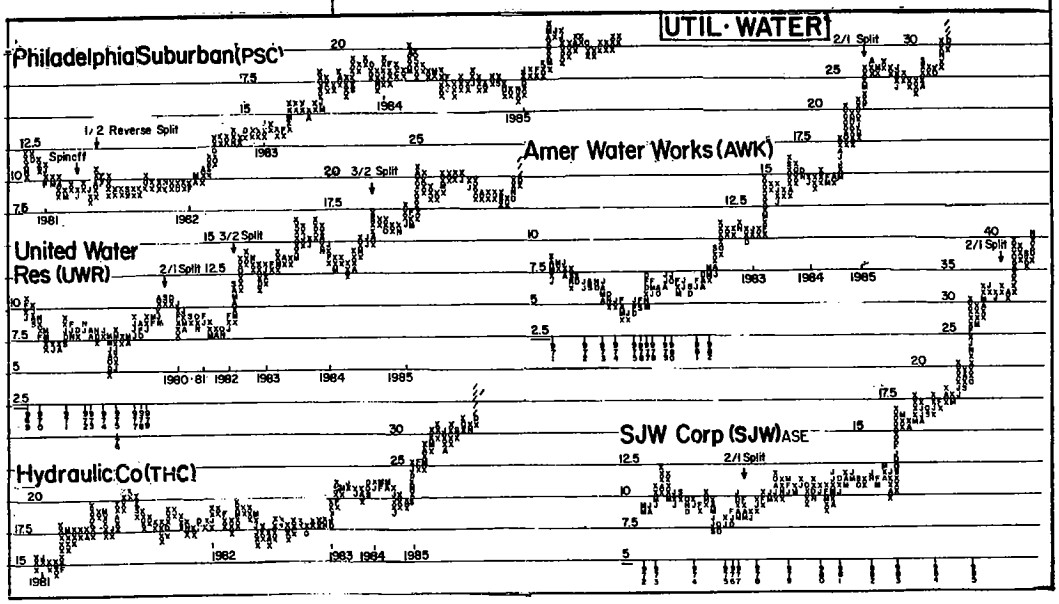
(3) Due to US takeover mania, there's been a $146 billion absorption of common stock over the past year. Because of this, many analysts are saying "shortage of good shares". Is it true? Maybe, but it seems to me I've heard that one before.

(4) Long-term Treasury bonds finally broke below the 10% yield barrier in November. Is this the signal for a whole new low yield area for US bonds? It just could be.

(5) There's a glut of building across the US today. This is particularly true of commercial buildings. If the new tax bill becomes law, fewer buildings will be

INVESTMENT POSITION: The great Dow Theorist of the 1930s, Robert Rhea, used to say that "every 100 points higher is 100 points nearer the eventual top." When the Dow rises 300 points without a correction, Rhea's advice is something we might keep in mind. This market is heavily over-bought. Nevertheless, one sign of a strong market is that it STAYS over-bought. Cautious I may be, but I have NOT yet seen signs of a top. Usually, a market (like this one) that shows such persistent strength also gives definite signals when it is about to correct. I don't see the signals yet. So the bull is still king of this box.

As you know, I have been very bullish on the water utilities and I have repeatedly recommended them. There are substitutes for almost everything from aluminum to soybeans, from silver to beef. But there are NO substitutes for water. And the water stocks suggest that investors are beginning to grasp that fact. These charts of leading water stocks are courtesy of Market Charts, 20 Exchange Pl., NYC 10005. Note that every chart is bullish. And remember one fact: the US population continues to increase -- not so our water supply.



built. This plus the glut could cause a general building slump. We'll watch it.

(6) This year the US produced its biggest grain crop in history. The grain is being stored everyplace short of hat boxes. On top of that many of our major export markets (China, Turkey, India, parts of Asia) are now mass-producing and actually exporting their own grain. The glut grows and our farmers go broke and broke and broker.

(7) Finally, OPEC really is coming apart. Many predict oil prices down to $23 and even $18. If so, that's very deflationary. And how about the banks holding debt based on fantasy $35 and $40 oil? And how about a massive shortfall in government tax receipts (remember the government's windfall profits tax on oil -- that won't exist with $18 oil!)?

(8) We've got a new Congressional bill purporting to give us lower deficits right through to 1991 when we'll have no deficit. Will it work? Will we move toward zero deficits? That would be tantamount to a second American Revolution.

(9) The dollar is falling. The trade-weighted dollar is down 26% from its peak. That should help the US balance of payments. If we could only produce something that foreigners want to buy (I didn't mean you, IBM).

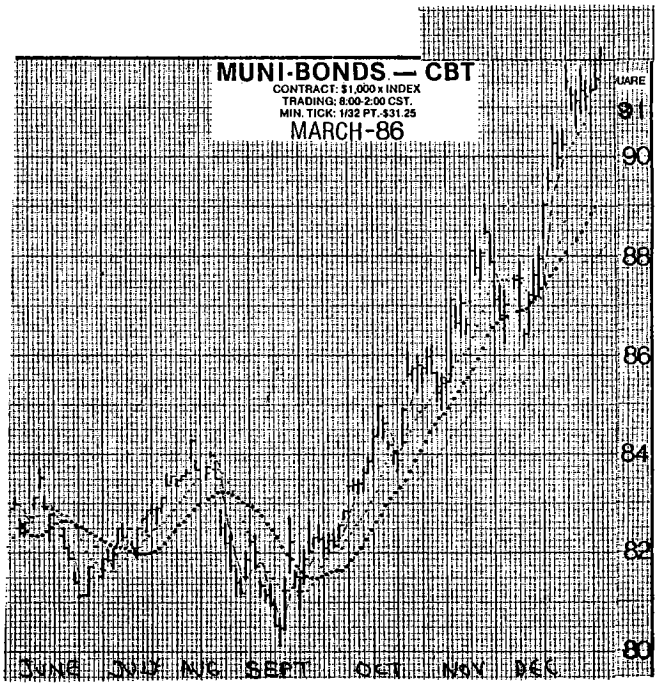
(10) The US is, for the first time in memory, NOT the undisputed leader in world production and technology. No, we're only the leader in certain areas today. And those areas are getting fewer. This may be the biggest force for change of any of the above. But the perception of this could take another three to five years.

There's my list for 1986. It should be an exciting year!

BONDS: First, let me repeat that if the new tax "reform" bill goes through, you may not be able to write off state taxes against your federal taxes. Thus, you don't want to do anything to increase your own state taxes. Consequently, I recommend that you buy muni bonds only from your own state (most states will not allow you to write off muni income from outside states).

Second, do not buy non-governmental muni bonds issued after Dec. 31, 1985. The reason is that the new tax law may subject all non-governmental muni bonds to a 25% alternative minimum tax (AMT). If this occurs, we will probably see a two-tiered muni bond market with bonds subject to the AMT tax yielding from 50 to 75 basis points more than the pre-1986 bonds. So ... my rule (to be safe) is that you buy your own state's general obligation bonds or general obligation bonds issued by cities and counties in your OWN state. As you know, I don't like insured bonds (see the article in the December 16 issue of Barron's on the bond insurance companies).

This updated chart of the new Muni bond contract shows you what has been happening to munis specifically and bonds in general. To put it mildly, we have had a spectacularly powerful advance. The bonds are now consolidating, which they are certainly entitled to do. But they sure don't show



any weakness at this point, despite the fact that they have rallied around 13% since September.

THOUGHTS ON INVESTING: I'm not going to deal with trading in this piece. Trading is very difficult, and today's trader has it doubly difficult because he has to deal with taxes. The trader takes hard after-tax dollars and tries to make before-tax profits. For example, a person in the 50% bracket makes $10,000. After taxes, he is left with $5,000 (less if he lives in a high-tax state). He takes that $5,000 and buys a stock for trading purposes. If the stock goes down, he loses his hard-earned after-tax dollars. If the stock goes up say 50%, the trader sells (if he is a short-term trader). The person pays the taxes on the $7,500 and is left with around $6,200.

My feeling is that is a losing proposition unless you border on being a trading genius. As far as futures are concerned, your tax on profits has a ceiling of only 30%. But in my experience, the fatal flaw in commodity and futures trading is that sooner or later you are going to get caught in a limit-down situation. At that time, your losses (and your sweat) is going to outweigh anything you might gain on the upside. In other words, I would say that 90% of all traders end up losing money.

"All right, Russell," you retort, "how do you make money?" My answer is any one of three ways. And I've seen it done all three ways. (1) You invest with the great tidal trend of the market, and I'm talking about investing during a bull market. Here the best (surest) way is to buy a diversified portfolio of good, dividend paying stocks and hold them all the way up to somewhere near the bull market high. A variation of this is to buy a good no-load fund and just sit through the bull market with the fund. In a bull market, roughly 85% of all stocks will rise and eventually blow their tops -- before the bull breathes its last. Thus, "investing with the primary trend" requires money (near the beginning) and patience.

(2) The second technique is the one advanced by Warren Buffet in the February 25 issue of Barron's. The technique involves something that Charles Dow wrote about extensively, and it is a technique codified by Benjamin Graham. It's called buying great values.

The theory here is that values will out, and they will out in any kind of market. The buyer has faith in the companies he buys, and it is obvious that certain companies can and will outperform in any kind of market. Other companies, for a variety of reasons, may simply be neglected or are vastly underpriced, based on potential earnings. The buyer of values will search out these companies, buy them, and sit on them. Fortunes have been made in this way. I've seen it done. You've seen it done. It can be done.

(3) The third technique is by way of compounding. Here one must buy securities that are (a) high-yielding and (b) safe. Compounding works on the thesis that money builds up fast when high yields are available. Perhaps the easiest way to put it is that at 9.5%, money doubles in eight years. Why do I use 9.5%? Because that is what you can buy AA-rated state general obligation bonds for.

Let's be conservative. Let's take 9% yield. Put away $5,000 a year each and every year at 9% and in 10 years you have $75,960. In 15 years, you have $146,800. Put away $5,000 a year at 9% for 20 years and you have $255,800.

This is the age of big debt and high interest rates and this provides an ideal climate for compounding your way to riches. But I warn you, compounding takes a lot of self-control and it is bor-r-r-ing. So if you want thrills, by all means be a trader. If you want the sure road to riches -- be a compounder. If you want a bit of excitement and you've got some real value savvy, pick the undervalued stocks.

Some pointers: (1) Before you choose your technique, know your strengths, your weaknesses and your preferences. Forget what the other guy can do -- you can only do what YOU can do.

(2) If you want to compound, you must pick safe securities. It does no good to buy junk bonds that won't make it in 20 years. You've got to pick high quality securities for compounding purposes.

(3) Diversify. Don't just buy one or two securities.

(4) Pick an investment technique you can live with. If you find yourself fidgeting or sweating, you've picked the wrong one.

(5) Have patience, patience and more patience. Every system requires discipline, patience and time.

One last thought. There's about $7 trillion in debt in this country, and it's all compounding at an average of 10% or better. At 10% money doubles in just over seven years. Where is all the money going to come from to cover the current $7 trillion in total US debt (and I'm talking about corporate, personal, city, state, federal debt) if money doubles in just over seven years? How can the nation pay out that kind of compounding interest, year after year?

And my answer is -- I honestly don't know. Maybe the debt will be carried via inflation. Maybe a lot of debt will be wiped out via depression. Maybe there'll be a moratorium on debt. The ancient Jews had a year of Jubilee every 52 years, at which time all debt was wiped out and they started over again. Maybe we'll end up with that kind of "solution". Or maybe the world will go conservative and decide to pay off the debt (while suffering a hair-curling depression).

GRAMM-RUDMAN: What it Means: There's a $200 billion gap between what the federal government spends and what it takes in. The gap was the result of a three-year 25% reduction in individual income taxes. The problem arose later when Congress didn't have the will or the guts to make the necessary budget cuts. So the deficits grew, and grew and GREW.

The so-called "solution": Gramm-Rudman (GR), a bill that mandates budget cuts down to a zero deficit by 1991. According to GR, if Congress and the President can't agree on the budget cuts, then GR mandates across the board cuts in all government programs except Social Security, interest payments and certain welfare programs. These three exceptions mean that 40% of the US budget will be the recipient of ALL the GR cuts. Who, then, will be hit hardest by GR? Simple: the middle class, which will lose many of its favorite programs. The rich and poor will fare best under GR.

How did it all happen? It happened when President Reagan (in two presidential campaigns) said that we could have it all -- a defense buildup, tax cuts and a balanced budget. Nobody could have been more mistaken, as the subsequent huge budget deficits showed. So we come to GR. The real meaning of GR and the fact that Reagan signed the bill is this: it means that Reagan (politically) can't take endless $200 billion and up deficits, and it means that he must now face both military cuts and a tax increase. Further, GR means that the Democrats MUST give up being the dispensers of government gifts. In a phrase, the Great Society, The Fair Deal, the New Deal, the Reagan Dream, they are ALL facing the arithmetic moment of truth. The fact is that US deficits now outweigh ANY government programs or military aspirations. Two and two still equals four, and GR is Congress' reluctant admission of that fact.

In view of this, I'll repeat a prediction that I've made for three years running: the peak in living standards for Mr. and Mrs. America has passed! The money has been spent (it's now a mountain of interest-bearing debt), and for this reason I expect to see a gradual DECLINE in US living standards for years to come. For further proof, note that US consumers are now spending the largest percentage of their net income in history in an effort to keep up their standard of living. Also, note the front page WSJ article (Dec. 17) entitled, "Strapped Yuppies, Despite a Have-It-All Image, They are Far Worse Off than Their Parents Were."

Now I'll make a second prediction (and I've made this one before too): the operant word for the future is going to be income. Income is how one keeps up his standard of living, and income will be the key to your future and mine. That's why bonds are in such demand today, and that's why high-grade stocks are in great demand today. Consciously or unconsciously, informed investors know that they are going to need INCOME over the years ahead. So I urge my subscribers to think in these terms. This may be the best advice I've given since I told you to load up on bonds a few years back!

OK, final Russell prediction: Congress in 1986 won't make any cuts worth a damn, a crisis will arise, Reagan will "reluctantly" allow some military cuts and Congress will trim a few budget items and a VAT tax will be brought in and signed by a "reluctant" Reagan.

NOTES & QUOTES: What's the difference between Santa Claus and the deficits? Answer: Children ask Santa Claus for presents and their parents pay for them. Deficits: Parents ask the government for presents and their children pay for them.

* *

My latest thoughts about President Reagan who last week "reluctantly" signed the most expensive farm bill in US history (cost: $159 billion over five years). ... Reagan doesn't really like anything but he signs EVERYTHING. Reagan on the veto: What's that?

* *

A thought from Mobil:

But America is caught in a Catch 22 situation. Federal, state, and local taxes keep climbing (the total tax bite in 1984 totaled 10 percent more than it did in 1983—a total of $1.09 trillion. Even so, the national debt that year rose 14 percent). So to escape higher taxes, more Americans join the underground economy—denying the government the legitimate taxes they should be paying. And as the deficit grows, lawmakers try to raise taxes, which leads to more evasion, ad infinitum.

* *

Words for the New Year: From theologian Soren Kierkegaard, "One must always try to live life forward and understand it backwards."

From the great poet-philosopher M. Rilke, "Be patient towards all that is unsolved in your heart. Try to love the questions themselves."

From famed psychoanalyst Carl Jung: "Your only duty on this earth is to find yourself and live accordingly."

* *

A flood of chefs are leaving France to cook and operate their own restaurants in New York City. These two paragraphs are from an article about the new invasion (from the Nov. 13 NY Times):

"You only have food where you have money," said Gérard Pangaud, "and there is no more money in France. The money is here, in New York. That is why New York is becoming a world center for food."

The young Frenchman, who closed his own two-star restaurant in Paris to come to this country, is the chef at Aurora, 60 East 49th Street, which, as of 4 o'clock yesterday afternoon, was still New York's newest, hottest place to wine, dine and be seen.

* *

Great mistakes: Aileen Mehle, known to her millions of newspaper readers as Suzy, was recently interviewed by "Interview" magazine. In the interview, Suzy states, "I have what Bill Buckley calls X-ray vision. He says I can see through all of us. That I can spot a phony ... and I can. I think it's a gift. I'm seldom wrong about people. When I see someone and I don't get a good reaction, that feeling almost never changes. No, I can't say never. I have made two mistakes about people and I married both of them."

Asked if she thought she'd ever marry again, Suzy retorted, "I don't think so. I think twice is enough. I see so few marriages that I envy. I think marriage, if it works, is the ideal arrangement, but it works so seldom, and somehow I think it's better to just love them and not marry them. What would I do with a husband? What would a husband do with me?"

* *

How good is the American Constitution? Here's a comment from a recent interview with Chief Justice Warren Burger:

BURGER: The remarkable thing is that it could have been created at all, 200 years ago. Here we were, a brand new country of about 3 million people, scattered up and down the Eastern seaboard, with no great tradition of culture, no great history behind us, no great industrial system, almost no educational system. And yet 55 men drafted a document that created a system of government that has no parallel in all of human history. Philosophers had dreamed about a system that would have separate powers with checks and balances, but it had never been done. And philosophers really didn't think it would work. The story of this document, that has lasted longer than any other constitution in all of human history, is one of the greatest stories of all time.

* *

Facts & Rumors Dept: Houston's real estate picture is shaky. This year there will be a stunning 15,000 foreclosures in the Texas city (which has been hit hard by the oil slump). ... The rumor, according to Dan Dorfman, is that Smith Barney is trying to put together a package to sell EF Hutton. ... According to Manhattan, Inc. magazine, the following are average prices for apartments in Manhattan: studio, $176,196; one-bedroom, $282,868; small two-bedroom, $435,318; large two-bedroom, $670,308; town house, $2,295,118. Prediction: soon the only people living in NYC will be the rich, Yuppies living on the edge and bag ladies.

* *

When I was a kid a ride on the NYC subway was 5¢. The new price coming up will be $1. But you get a lot of artwork (graffiti) now for your buck. ... When I started this business a first-class letter was 3¢. Now it's 22¢. And you know what: with the rise to 22¢, the Post Office just announced that this year's deficit will be around $500,000. I'll say it again -- turn the PO over to private business. They'd cut costs and make a profit to boot. ... By the way, whatever happened to the Grace Commission's study of how to cut costs at the Federal government. You know what happened to it -- nothing!

* *

Gore: The following (below) is from an interview by Ed Hutshing (book editor for the San Diego Union). The interview was with author, critic, philosopher Gore Vidal:

"I said the United States empire lasted exactly 71 years. The money power moved from London to New York in 1914. This last September, the money power moved from New York to Tokyo and it's not coming back. Tokyo is now the economic center of the world. And when the Japanese make their ultimate alliance with the Chinese, the United States will be just an irrelevant country. Ditto Western Europe.

"As to the meetings between Reagan and Gorbachev, what we must take into account in the overall historical context is that the Soviet Union and the United States are natural allies — not just detente — *allies* in a world that is going to be dominated by Sino-Japanese economy.

"Norman Mailer agreed with me. Mailer and I are two of the better-known writers in the country and we both said Russia was our natural ally. Doesn't this startle you?

"I gave a very intense polemical lecture on the American empire, its immediate future and on the economy. And he picked up on what I had spoken about. He said, in effect, what I had said and we were as one. The fact that we had agreed was also news, since we don't agree on much of anything.

The following is from the Dec. 7 London Economist. It is interesting to note that Russia has an almost paranoid fear of China.

Furthermore, with China now moving toward the 20th century and the profit system, Russia is going to be in a quandry. Russia cannot allow its economy to stagnate while Asia gains economic power. Yet, to produce Russia must follow China's example and give its workers incentives.

So it's not inconceivable that Russia will move closer to the US as Japan moves closer to her natural ally -- China. Stranger things have happened, as those of us who fought Germany and Japan in WW II know only too well!

The trade imbalance is, of course, a problem. What is less often realised (or, at least, admitted) is that Japan and the United States are increasingly becoming part of the same economy, an economy equal to a third of world output. Links with Europe are strong, of course, but Japan leans far more toward its Pacific partner. The American obsession with Japanese competition is far deeper and more widespread than Western Europe's.

More than a third of Japan's exports go to America, its largest trading partner, while more than 20% of America's exports go to Japan, America's second largest partner (after Canada). Since 1982 Japan has supplied the goods for America's boom; America has supplied the markets for Japan's growth. Even quarter-by-quarter twitches in the American economy send ripples to Japan.

Japanese savings are financing America's growth. In 1984 America needed net inflows of $43 billion of long-term capital. In the same year Japan exported a net $50 billion worth, much of it to the United States. The Tokyo stock market, the world's second largest after New York, keeps a keen eye on how Wall Street moves overnight. Japanese investors are key players in America's bond and stock markets. Moves in America—deregulation, tax reform, financial liberalisation—are echoed in Japan.

* *

Cars: Want a great low-priced car, try the two-door Subaru. I did and I can tell you that it's a winner at around $8,500. For a medium-priced car that is as good as or better than the BMW 325i, try the Nissan Maxima (in the $15,000 area). The car has a V-6 engine, is loaded with standard features. Honda is coming out with a luxury car (the Acura) to compete with the Mercedes 190 and the BMWs. The new luxury Honda will sell from around $18,000. Honda is one of the few auto companies that has never produced a lemon. The Acura (I predict) will be the terror of the luxury car market.

* *

GOLD: Dr. Franz Pick died on Nov. 30 at the age of 87. I only met the famous Dr. Pick once (about 10 years ago), and we talked hard money and stamp collecting (Pick was an avid collector of French stamps). Pick was also a lifelong fighter against inflation. His tough and often abrasive style alienated many people. But Pick dealt with the truth, and he was one of the giants of honest money. These quotes (courtesy the Silver and Gold Report) are from Dr. Pick:

> **"The US Treasury is waging war against gold to take away attention from the dying dollar. But they will lose. Gold is mightier than the dollar.**
>
> **"I have lived through many wars against gold. Gold always wins. Governments are always forced to return to gold because gold is non-political, and gold is an accumulation of value.**
>
> **"No government has ever mastered gold. It's a fantastic story. From the Pharoahs to the Greeks, to the Romans, down to the Secretary of the Treasury of the United States—no one has ever mastered gold. Gold has no master.**
>
> **"The Treasury knows it cannot master gold. Governments grow and crumble, but gold always remains. Gold is eternal. Gold is for the centuries."**

In this issue I am including a point & figure chart of gold (courtesy of Chartcraft, Larchmont, NY). Although gold is holding well below the long-term bearish trendline, the last short-term signal for gold was bullish. This came when gold in August rallied to and then above 328. Gold has now sunk back to the 320 area, but it would take a London fix of 308 or lower to turn gold technically bearish again.

For my subscribers, gold is the "eternal way" to diversify your assets. Your house can burn, your wife can leave you, your bank can fold, your stocks can go belly up, your bonds can reneg, but gold -- gold will still be money when everything in today's world is ancient history. So -- continue to buy gold coins on a monthly averaging basis, and I don't care if you buy one Krugerrand or Maple Leaf a month or 10. There's nothing wrong with accumulating gold when the US Congress can't make specific budget cuts and the President compromises on every issue. Buy gold, and hope disinflation continues. But just in case it doesn't. ....

NEXT MAILING: January 15

Even if I hated football there's no way I'd miss this Sunday's Bear-Giant game! It'll be monsters vs. monsters.

LATE NOTES: The stock market advance was first impressive, then spectacular. It is now historic, the kind of fortune-making rise one sees two or three times in a generation. My PTI closed at a new record high of 2046 on Dec. 27 and the bull forces were fully in command. The muni and T-bond futures both closed at new highs and even gold (which has refused to break down) appears to be in a subtle, upward creep. What wonders the stock and bond markets see for 1986 are hard to fathom at this time. But what they see -- they like. I would say, however, that the odds are slim that 1986 (by the time it is over) will be as much fun as 1985. In the meantime, let the good times roll.

Final Item: I'm almost embarassed to say this, but I spent Christmas afternoon on the beach in San Diego. The temperature here hovered around the low 80s. Who needs Maui?